

06-Jun-2025

# G-III Apparel Group Ltd. (GIII)

Q1 2026 Earnings Call

## CORPORATE PARTICIPANTS

### Neal Nackman

*Chief Financial Officer, G-III Apparel Group Ltd.*

### Morris Goldfarb

*Chairman & Chief Executive Officer, G-III Apparel Group Ltd.*

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## OTHER PARTICIPANTS

### Ashley Owens

*Analyst, KeyBanc Capital Markets, Inc.*

### Paul Kearney

*Analyst, Barclays Capital, Inc.*

### Mauricio Serna

*Analyst, UBS Securities LLC*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good day and welcome to the G-III Apparel Group First Quarter Fiscal 2026 Earnings Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. Instructions will be given at that time. As a reminder, this call may be recorded.

I would now like to turn the call over to Neal Nackman, company Chief Financial Officer. Please go ahead.

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### Neal Nackman

*Chief Financial Officer, G-III Apparel Group Ltd.*

Good morning and thank you for joining us. Before we begin, I would like to remind participants that certain statements made on today's call and in the Q&A session may constitute forward-looking statements within the meaning of the federal securities laws. Forward-looking statements are not guarantees and actual results may differ materially from those expressed or implied in forward-looking statements. Important factors that could cause actual results of operations or the financial condition of the company to differ are discussed in the documents filed by the company with the SEC.

The company undertakes no duty to update any forward-looking statements. In addition, during the call, we will refer to non-GAAP net income, non-GAAP net income per diluted share and adjusted EBITDA, which are all non-GAAP financial measures. We have provided reconciliations of these non-GAAP financial measures to GAAP measures in our press release, which is also available on our website.

I will now turn the call over to our Chairman and Chief Executive Officer, Morris Goldfarb.

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### Morris Goldfarb

*Chairman & Chief Executive Officer, G-III Apparel Group Ltd.*

Good morning. Thank you, Neal, and welcome, everyone. We delivered solid first quarter results with earnings outperformance that exceeded the high-end of our guidance. Our first quarter results were driven by double-digit growth of our key owned brands; DKNY, Karl Lagerfeld, and Donna Karan, mostly offsetting the lost sales of the exited Calvin Klein jeans and sportswear license business. These results are a testament to our ability to execute our strategic priorities by leveraging our diverse portfolio of globally recognized brands and our unwavering commitment to disciplined brand building and operational excellence.

As we've entered the second quarter, we saw cooler weather negatively impacting early spring. As the weather got more seasonal, we've seen positive sales momentum across our brands, channels and regions. We're cautiously optimistic about the consumer environment, and are encouraged by the health of our brands and business as we execute in the second quarter and are actively taking advantage of the market disruption to further capture market share.

Before reviewing our quarterly results, I want to address the broader macroeconomic environment and the recent tariff developments. While the global landscape remains uncertain, we are staying focused on what we can control by executing our strategy to drive profitable growth and positioning G-III to capture market share throughout this period of disruption and beyond. Based on incremental tariffs, we estimate the potential unmitigated tariff impact for fiscal 2026 to be approximately \$135 million.

We're actively working to reduce the impact through a combination of strategies, including continued sourcing diversification, vendor negotiations, selective retail price increases, disciplined inventory management, cost savings, and operational efficiencies.

Starting with sourcing and vendor negotiations. We're leveraging our scale with our long-standing suppliers to negotiate discounts to partially offset cost increases without compromising the high-quality, value-driven assortments G-III is always known for. With over 50 years of sourcing experience, we've consistently led the way in global production shifts.

From our beginnings in a single New York City factory, we were early movers, relocating production to South Korea, then Indonesia, then Mongolia, and eventually China, capitalizing on emerging sourcing markets as they open. Today, a well-diversified supply chain spans over 40 countries across Southeast Asia, the Middle East, Europe, and the Americas, supported by a team of over 400 professionals on the ground. As a result, China will represent less than 20% of our production by year end, down from nearly 90% several years ago.

Next, on pricing, we're actively negotiating with retailers and we'll selectively raise prices. With over 30 in demand brands across categories, price points and channels, our portfolio offers strong pricing power. Consumers are willing to pay more when quality and value are clear. This is evident in the strong AURs and growing demand for our newer brands, like Donna Karan and Karl Lagerfeld, whose distribution is extremely limited in the off-price channel.

Because these brands, along with our new licensed initiatives are new to the market, this gives us the opportunity to set higher initial price points. We'll continue to monitor consumer response closely to protect both market share and profitability. On the inventory front, we're in good shape, ending the quarter down 5% to last year as we continue to manage inventories tightly, staying disciplined in our buys. In terms of our cost savings initiatives, as we exit the Calvin Klein and Tommy Hilfiger businesses, we're realigning our organization to unlock further efficiencies in fiscal 2007 and beyond. This includes streamlining our warehouse network, which will result in the exit of four warehouses and related staff reduction of over 150 people.

Additionally, we're integrating and optimizing warehousing for our international businesses and reducing inbound freight costs through further consolidation of our brands. We're also investing in systems to increase supply chain transparency, upgrading digital tools to better support our omni-channel strategy, and leveraging technology to drive more operational efficiencies.

On the real estate front, we successfully renegotiated favorable lease terms for our corporate offices, securing appropriate options for kick outs on approximately one third of our space. Additionally, we continue to focus on optimizing our global store footprint to improve productivity.

Our North American retail segment is expected to breakeven this year, further enhancing our operating income by \$14 million. We had planned to relaunch our Sonia Rykiel brand this fall, but given the uncertainties, we made the decision to cancel production and postpone the launch.

We've written down costs related to materials on hand and disbanded the dedicated team with plans to revisit the launch when the operating environment stabilizes. And in parallel, we're realigning our teams to support the organization's future needs. While we remain disciplined in managing expenses, we will continue to invest in our key owned brands and other growth initiatives to support long-term expansion.

Now, let us review our first quarter fiscal 2026 financial results. Non-GAAP earnings per diluted share was \$0.19, compared to \$0.12 last year, well above the top-end of our guidance range. Net sales for the quarter were \$584 million, in line with our guidance. We remain in strong financial position, ending the quarter with cash and availability of approximately \$740 million.

Turning to our strategic priorities. As we continue on our transformation journey, our top priority remains driving the growth of our owned brands as they represent an important and sustainable long-term profit driver. These brands generate higher operating margins and provide an accretive licensing income stream. As I mentioned earlier, this quarter's results were driven by the strong performance of our key owned brands; DKNY, Karl Lagerfeld, and Donna Karan, which collectively grew double digits.

International remains one of our largest untapped opportunities for our brands. We're developing our expertise in Europe, where the support of AWWG, our brands are beginning to gain traction. We're building on our brands' already strong global recognition and investing in marketing to drive additional awareness and engagement in key markets overseas.

Now, let me walk you through brand highlights from the first quarter. Donna Karan had a stellar first year after relaunching last spring with momentum continuing into the first quarter. Sales grew nearly 50% to last year, and the brand's AURs and sell-throughs remain the strongest across our portfolio. We've just scratched the surface on the opportunity here in the US and are excited to introduce the brand into international markets with a potential of \$1 billion in annual sales over the long term.

The brand saw substantial growth in dresses, which nearly doubled this quarter, as well as suit separates which also saw significant growth. Saks, Nordstrom's, as well as other premium retailers are expanding distribution into their stores after a successful digital-only launch last year. At Nordstrom's, we're quickly scaling and expect to be in 50 doors by fall. As a reminder, we never distributed categories for Calvin Klein and Tommy into full-price premium stores. Retailers are also dedicating additional floor space, and currently, the brand is available in over 1,700 domestic points of sale, up from approximately 500 last spring. The brand's website, donnakaran.com, also saw a strong growth, led by the dress category.

We have plenty of opportunities to expand across categories, including accessories. Our new premium handbag line is commanding AURs of up to \$500 and seeing strong demand, underscoring the brand's resonance with aspirational consumers. We're thoroughly and thoughtfully expanding into additional lifestyle categories through our licensing partners with a focus on fragrance, intimates, home, and menswear.

Interparfums, a fragrance partner, is building on the brand's iconic Cashmere Mist franchise with the launch of a new scent, Cashmere & Vanilla, which received positive reviews and is experiencing strong sell-throughs. As part of this launch, we produced a capsule apparel collection made of 100% Cashmere available exclusively on the brand's digital site.

On the marketing front, we've developed award-winning campaigns that have driven significant brand awareness and engagement since the relaunch. This spring's campaign, featuring Kate Moss, was equally powerful, reaching global audiences and exceeding our expectations with over \$27 million in earned media value. A great indicator of the brand's strong recognition is its significant celebrity interest and a VIP red carpet styling moment, which includes Margot Robbie, Gwyneth Paltrow, Jenna Ortega, and Doechii, among others.

DKNY delivered another strong quarter with double-digit sales growth, driven by momentum in North America. The brand is gaining share across categories, as we deepen our lifestyle assortment. Jeans sales more than doubled this quarter and we saw additional outperformance in athleisure, handbags, swim, and outerwear. DKNY has established a growing licensing income stream with best-in-class licensing partners.

As a complement to our expanding men's outerwear offering, we're tapping into the opportunity in men's by licensing categories, including sportswear, suits, dress shirts, neckwear, and shoes. We've also established a successful licensed fragrance business with one of the brand's iconic fragrance franchises, Be Delicious, nominated as a finalist for The Fragrance Foundation 2025 Hall of Fame award.

On the marketing front, our Spring 2025 campaign featuring Lila Moss rolled out across key global markets, including the US, UK, Italy, Germany, Spain, Portugal, South Korea, and the Middle East. Our digital and social influencer programming kept the brand top of mind throughout the season. DKNY continues its successful partnership with the New York Yankees with a prominent billboard in right field. And this year, we also sponsored the DKNY's branded jersey giveaway for over 18,000 fans entering the Yankee Stadium.

Internationally, the brand is also gaining momentum. This quarter, Europe delivered strong growth across lifestyle categories with particular strength in jeans and accessories, while the Middle East saw solid sell-throughs in core categories, including handbags, sportswear and footwear. We remain in the early innings of international expansion.

Karl Lagerfeld delivered another quarter of double-digit growth. In North America, the brand saw a particular strength in sportswear, footwear, dresses, and suits, which collectively grew over 20%. We're leaning into white space opportunities in menswear by adding new license categories, such as dress shirts and neckwear and that complements our men's outerwear and suit offerings.

Internationally, the brand continues to expand with mid-single digit sales increases, driven by broad-based growth across channel and product categories. We're refining our assortment to reach a broader consumer, while balancing the brand's aspirational appeal. Our new Karl Studio line offers more premium fashion forward product and is eliciting strong press and consumer engagement with solid growth in the quarter. We saw almost 40% growth in digital across our partner marketplaces and karl.com.

We're in the early stages of building out the Karl Lagerfeld jeans line, which grew 50% in the quarter, helping us capture a younger consumer. The brand is experiencing solid sell-throughs for spring, delivering strong comparable sales growth across full price and outlet stores. We're expanding the brand's retail footprint in key global markets, including the opening of the first store in Karl's hometown of Hamburg, Germany, this quarter. To drive brand awareness in Asia, we recently launched the high impact Pop-Up in Seoul, Korea, a city celebrated for its bold, expressive street style, making it an ideal market to spark consumer engagement.

This two-week activation offered an immersive journey into the world of Karl, bringing the brand to life in a vibrant and locally resonant setting. The results exceeded our expectations, as sales at the Pop-Up more than tripled projections, and the event generated significant media buzz. Key opinion leaders and influencers amplified our message, driving strong engagement, expanding our reach across digital and social platforms, and generating significant brand awareness.

This success underscores the tremendous untapped potential in Asia. We're energized by the momentum and are actively engaging with partners to unlock further growth opportunities in the region. In addition to growing our owned brands, expanding our portfolio of strategic licenses remains a key pillar of our long-term strategy. We believe these partnerships will further diversify our business model and drive growth in a capital-light way.

Our over 30 globally recognized brands are differentiated across lifestyle categories, having a wide range of aesthetics, price points and distribution channels, appealing to a broad consumer base. We also have global distribution rights for some of our newer licenses. Meanwhile, a powerful corporate platform enables us to bring brands to market efficiently and at scale.

Retailers value their relationship with G-III and consider us a partner of choice for exactly the reasons I just mentioned. Our partners have access to our substantial portfolio of brands and the significant value we offer in the high-quality commercial product that we supply at the right price point and on time. Additionally, a key differentiator in the value-add service we provide through our dedicated field merchandisers who ensure our products are well represented on their sales floors, helping to drive strong profitability for our retail partners.

In turn, retailers continue to invest in our brands by allocating premium floor space and expanding door counts, fueling mutual growth. Macy's naming us their 2024 Partner of the Year for the second time is a testament to this, reflecting the strength of our 40 plus year relationship and our shared commitment to excellence. Our newly launched Nautica jeans, Halston, and Champion outerwear had a good spring season and are scaling in size.

Just a reminder. Regarding Nautica, due to our licensing agreement with Tommy Hilfiger, we're currently limited in our ability to produce additional categories. These restrictions will be lifted as we return to Tommy Hilfiger categories. In the first year of launching Nautica jeans, we more than offset the sales of the Tommy jeans business. We're on track to launch Converse and BCBG this fall. A Converse fall order book for North America and Western Europe is building nicely with first orders set to ship in August.

Converse provides access to a differentiated consumer and distribution network where our fashion brands have little or no presence. This includes big box, sports specialty, and sporting goods stores, as well as Western Europe and through the brand's global distribution network, including the over 1,000 Converse stores that G-III can potentially service. As for our PVH licenses, for this year, we expect our go-forward brands, led by DKNY and Karl Lagerfeld will largely offset the sales decline in the exited Calvin Klein jeans and sportswear licenses, which represented \$175 million in sales last year.

Looking ahead to fiscal 2027, we're proactively preparing for the expiration of several key PVH licenses, including Calvin Klein outerwear and athleisure, as well as Tommy Hilfiger outerwear, sportswear, and athleisure. Over the course of our long-standing partnership, we've played a pivotal role in building with Calvin Klein and Tommy Hilfiger North American women's wholesale business, contributing to over \$15 billion in cumulative wholesale sales.

As PVH transitions to managing these categories directly or new licenses, they will face the dual challenge of building the necessary infrastructure and onboarding new partners, while G-III has the opportunity to capture market share and accelerate growth of our portfolio. As we look forward, we're focused on our owned brands and we will be able to fully unlock the global potential of our portfolio. A strong balance sheet also affords us the ability to pursue future licenses and acquisition opportunity that align with our long-term growth strategy.

Turning to our next strategic priority of enhancing our omni-channel capabilities, which includes continuing to improve our North American retail segment store operations, and strengthening our digital ecosystem. In North America, we reduced the losses in our retail segment by more than half last year after successfully executing our turnaround strategies, which included management changes, reducing our store footprint and remerchandising product on our floors to present a better brand experience.

As I've stated earlier, this year, we expect the business to breakeven, eliminating approximately \$14 million in operating losses, and we remain on track to achieve these results. On the digital front, we saw high-single digit sales growth across retailer sites and pure-play platforms. Our investments in upgrading our owned websites and our expanded lifestyle offerings on pure-play platforms is helping to enhance our brands presence across digital touchpoints and driving market share gains. We continue to invest in supporting this ever important channel, and ensuring the consumer can access our brands wherever they shop.

In closing, we delivered a solid first quarter, fueled by the strength of our key owned brands. Amid ongoing macroeconomic uncertainty, we remain disciplined and focused on the levers within our control. We're reaffirming our fiscal year 2026 top line guidance and are actively working to mitigate the impact of tariffs.

Our experienced leadership team has successfully navigated through major market disruptions, and we're confident in our ability to emerge from this period even stronger. Backed by a healthy balance sheet, we're investing in our highest-conviction growth priorities, including accelerating global growth of our portfolio brands, deepening consumer engagement, creating iconic products and enhancing our brand portfolio through both licensing and potential acquisitions. I want to reiterate how excited I am by our globally recognized brands and the strength of our platform. We're well-positioned to drive sustainable, profitable growth, and deliver long-term value for our shareholders.

I'll now pass the call to Neal, who'll walk you through the financial results for the first quarter of fiscal 2026 and provide some guidance for the second quarter.

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## Neal Nackman

*Chief Financial Officer, G-III Apparel Group Ltd.*

Thank you, Morris. Net sales for the first quarter ended April 30, 2025 were \$584 million, compared to \$610 million in the same period last year, in line with our expectations. Net sales of our wholesale segment were \$563 million, compared to \$598 million in the previous year. Net sales of our retail segment were \$36 million for the quarter, compared to net sales of \$31 million in the previous year.

Our gross margin percentage was 42.2% in the first quarter of fiscal 2026, compared to 42.5% in the previous year's first quarter. The wholesale segment's gross margin percentage was 40.4%, compared to 40.9% in last year's comparable quarter. The gross profit percentage in the current year's period decreased 50 basis points due to unfavorable product mix, which was partially offset by the increased sales of our higher margin owned brands.

The gross margin percentage in our retail operation segment was 53.5%, compared to 47% in the prior year's period. The gross margin in the current year saw significant improvement, driven by our merchandising and execution initiatives as part of our retail segment turnaround strategy, as well as strong digital sales growth of our Donna Karan products, which carry higher AURs. Non-GAAP SG&A expenses were \$231 million, compared to \$237 million in the previous year's first quarter.

The decrease in expenses to last year was primarily due to a reduced advertising expense in this quarter versus the higher spend in the prior year related to the relaunch of the Donna Karan brand, and DKNY marketing campaigns. In addition, we experienced lower advertising expenses, resulting from a decreased net sales of licensed product in the current period. Non-GAAP net income for the first quarter was \$8.4 million, or \$0.19 per diluted share, compared to \$5.8 million, or \$0.12 per diluted share in the previous year's first quarter.

Turning to the balance sheet. Inventories are in excellent shape at \$456 million at the end of the quarter, decreasing 5% from the previous year's \$480 million. We ended the quarter with a net cash position of approximately \$239 million, compared to a net cash position of \$82 million in the prior year. We repurchased 800,000 shares for approximately \$20 million in the quarter. We remain in a very strong financial position with approximately \$740 million of liquidity. Our financial strength provides us flexibility to invest in our business and other strategic opportunities to drive future growth.

Turning to guidance, for the full fiscal year 2026, we are reaffirming our net sales guidance of approximately \$3.14 billion. However, due to uncertainty around tariffs and related macroeconomic conditions, we have withdrawn our net income, non-GAAP net income and adjusted EBITDA guidance for fiscal 2026 issued on our last earnings call on March 13, 2025. We estimate the unmitigated impact of tariffs on products imported into the US to be approximately \$135 million, which include an incremental tariff rate of 30% on Chinese products and 10% on imports from other countries.

As Morris outlined in his prepared remarks, we are working diligently to offset the impact of tariffs through diversifying our sourcing mix and vendor discounts, selective price increases and other cost saving initiatives. As you can imagine, this is an iterative process that we are actively managing and are focused on mitigating as much as we can. We expect the impact of tariffs to be predominantly weighted to the second half of fiscal 2026.

For the second quarter of fiscal year 2026, we expect net sales to be approximately \$570 million, compared to \$645 million in the prior year. The majority of the decrease to last year is related to timing shifts in certain programs from the second quarter into the second half of this year, as well as supply chain disruptions we are experiencing as a result of incremental tariffs. We expect gross margins for the second quarter to be generally in line with last year and, at this point, are anticipating only a small impact from tariffs in the quarter.

We expect non-GAAP net income per diluted share for the second quarter of fiscal 2026 to be between \$1 million and \$6 million, or between \$0.02 and \$0.12 per diluted share. This compares to non-GAAP net income of \$23.8 million, or \$0.52 per diluted share in fiscal 2025. With respect to modeling sales cadence in the back half, we anticipate a low-single digit increase for the third quarter and a mid-single-digit increase in the fourth quarter, inclusive of the new launches for the fall and holiday season.

That concludes my comments. I will now turn the call back to Morris for closing remarks.

## Morris Goldfarb

*Chairman & Chief Executive Officer, G-III Apparel Group Ltd.*

Thank you, Neal, and thank you, all, for joining us today. I'm proud of our team's work this quarter, and I'm confident in G-III's future as a global leader in fashion. I'd also like to thank our entire organization, our many partners, and all our stakeholders for their support.

Operator, we're now ready to take some questions.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. Our first question comes from Ashley Owens with KeyBanc Capital Markets. Your line is open.

## Ashley Owens

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Hi. Great. Thanks and good morning. So, maybe just starting off, you talked about taking price increases as part of the plan and discussing the stock pricing power and AURs in some of your owned brands. With these being newer and still more limited in distribution, is this where the focus is for some of those price increases? And maybe just more broadly, what parts of the assortment, whether it be dresses, coats, et cetera do you see the most opportunity to take price?

## Morris Goldfarb

*Chairman & Chief Executive Officer, G-III Apparel Group Ltd.*

A

Thanks for the question, Ashley. It's actually a really good one. We're getting a great level of cooperation from our retailers and adjusting pricing in targeted areas of our business. We're not arbitrarily taking 10% increase or a 6% or a 15% increase. We're looking at the opportunities that the consumer will accept. It seems that our retailers are accepting what we suggest. We are partners in this path and we will find price points that work effectively for ourselves, our retailers and, most importantly, for the consumer.

The advantage we have is we have several brands that do not have pricing pressure. We're retailing Donna Karan effectively with good margin and amazing sell-throughs at higher price point. We're positioned differently than with Calvin and Tommy Hilfiger. There's no real history. And if there is, it relates to designer when Donna Karan in her peak produced product dresses that were \$1,000 or \$1,500. So, when a consumer walks in to see a Donna Karan dress or a sportswear or a sweater, they say, oh my God, what value this really is.

And with that, we've taken a different approach. We've taken the iconic dresses and sportswear and pretty much the entire collection that Donna had created, and adjusted the fabrics, but kept the trends actual, and we're getting amazing attention for it and great sell-through. So not very difficult to raise our price points. With Karl Lagerfeld, similar form. Karl's got a unique identity, European, without distribution or very little distribution in the off-price channel. So the comparatives in the retailers that we're selling to are very reasonable and the brand has amazing pricing power.

Again, that has a lot to do, mostly to do with how we create product and how we keep quality and integrity of the brand in place. So those are advantages. The launch of Converse is yet another one. There's virtually no apparel or adult apparel in the pipeline or in the past for Converse. So, our pricing can be adjusted and hopefully that gets accepted. And getting it past our retailers or our customers is an easier process because there's no real reference point.

The consumer is really what we look at. What will they accept? And the other area of opportunity is the fact that we'll be distributing to a different level of retailer and a big percentage of our business and the sourcing arm is the same, the factories are very much the same. And our negotiating ability with the factories is as strong as anybody in the industry.

My bet is we're much stronger. It's always been a focus of this company. We're keyed in on developing factories, partnering with them, regardless of what country it is. We have a reputation for not abandoning a vendor. That goes a long way in this type of environment. So, I think we have an advantage, and I do not see – it's all open. We're not certain where tariffs level off. But if they remain in this zone, I believe we're fine. I hope that answers your question, Ashley.

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**Ashley Owens**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Yeah. No, no, super helpful. Maybe just one really quickly too on the guide with the relaunch – with the postpone of Sonia. Anything there that was factored into the guide for that? And then additionally too, which is regards to the order book, what you are doing for demand planning looking at the second half, any pulling back on supply with potential for less consumer demand if it does slowdown? Thank you.

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**Morris Goldfarb**

*Chairman & Chief Executive Officer, G-III Apparel Group Ltd.*

A

So as it relates to Sonia Rykiel, we worked hard at developing an amazing collection of product. We sold into the stores that we needed to in Europe. It was accepted and the price points were accepted. Great deal of difficulty in launching a brand with production in small units, sourcing the appropriate factories that are in a sense doing us a favor to launch. We were always working short on margin to get the product produced in place. Then our view was it was not going to be a very big business, it would lose some money, and we would position the brand for the future.

As tariffs became out of hand and the process became complicated, production kind of lost its taste for doing us a favor and produced small units. So, we decided the best thing to do is pack up and come back another day. And we disappointed some retailers, mostly in Europe, and we disbanded the showroom, the people that were staffed to run it, and design is now focused on another area of our business. So, not a costly event. It would have been far more costly to go forward for the year, and we felt this was not the year to launch a brand and lose money doing it. So it was a decision with my sounding board at G-III, and we decided that we bail.

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**Neal Nackman**

*Chief Financial Officer, G-III Apparel Group Ltd.*

A

Ashley, with respect to the order book and your question on supply challenges, look, we're certainly anticipating acceleration in the second half. We've got launches that come on in the second half. If you looked at what we did last year, you saw we had a very strong second half as opposed to the first. These businesses have bigger seasons, the ones we launch in the fall versus the spring period of time.

I would say that certainly ordering demand is slightly slower this year than where we were last year, but we remain cautiously optimistic that the consumer will be there for us. They'll be there for the brands we're delivering. We've got a lot of newness going out there. And that's really what gives us confidence, again, in the second half order book. In terms of supply, we're always prudent with respect to our inventory purchases, and we buy in accordance with things that we'll be comfortable with should demand gets soft on us. So, it's something that we've been managing through throughout our entire careers here and something that we do well.

**Ashley Owens**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Okay. Great. Thanks so much for the color. I'll pass it along.

**Morris Goldfarb**

*Chairman & Chief Executive Officer, G-III Apparel Group Ltd.*

A

Thank you, Ashley.

**Operator:** Thank you. Our next question comes from Mauricio Serna with UBS. Your line is open.

**Mauricio Serna**

*Analyst, UBS Securities LLC*

Q

Great. Good morning. Thanks for taking my questions. Just first, could you talk about roughly how much is this timing shift that you mentioned on the Q2 guide impacting the revenue outlook? And does that all shift to Q3? Or does it actually like spread out in Q2 and Q3? And then just on tariffs, like any sense of like how much you expect to mitigate out of the \$135 million? And I guess, looking into like should we assume a similar unmitigated impact on the first half of next year? Or maybe there's like some acceleration and initiatives or just seasonality implies like less impact? Thank you.

**Neal Nackman**

*Chief Financial Officer, G-III Apparel Group Ltd.*

A

Thanks, Mauricio. Yes. So, with respect to your first question in terms of shifting, it's probably easier for us to identify the shifts that are related to the supply chain issues we've had. When we had a 145% tariff rate in China, essentially, we were shut down and shut out of many programs. We ceased, in some cases, significant amounts of production and then really have to restart that when subsequently those tariffs became more manageable for us.

So, that's something that we probably feel that if we will look at the downdraft that we've got in the second quarter probably represents about half of the decrease, something in the magnitude of, I'd say, \$30 million of falloff that's just supply chain related for us in the second quarter. So, that would leave the balance really related to sales and sales shifts. That shift is both Q3 and Q4. We'd see programs that'll be going both – into both quarters.

**Morris Goldfarb**

*Chairman & Chief Executive Officer, G-III Apparel Group Ltd.*

A

So, part of it is really due also to a bankruptcy in Canada for Hudson Bay. We anticipated a fair amount of business for Q2 for Hudson Bay. We felt that they would be in a Chapter 11 position. We factored in a budget for their business. We had orders on hand. And at the end of the day, they went into liquidation mode. So, that was a fair amount of it. And part of it, as I described, the shutdown of Sonia Rykiel affected us to some degree as well.

**Neal Nackman***Chief Financial Officer, G-III Apparel Group Ltd.*

A

And, Mauricio, with respect to the tariff question, as we indicated in our prepared remarks, we're following several avenues to mitigate the increased tariff costs. So, by way of additional color, let me give you some insight a little bit into the process. As a wholesaler, our product lines for our fall and holiday season were largely went to the market and were sold to our customers prior to the new incremental tariffs.

So, we have been continuing to discuss with our retail partners the ability to selectively lift prices on those lines. This process is currently going on and the ultimate results from this process are still uncertain. With respect to our spring lines, those will come to market in the summer. And for those lines, we will be able to incorporate our new higher costs with our upfront selling. With respect to conversations with our sourcing vendors, we've made great progress with realigning our sourcing locations and striking compromises on our prices that are also originated prior to the incremental tariffs.

We've not completed our purchasing for the year and there's certainly some degree of uncertainty with respect to the costing and the location for those goods. But all of those processes cover our largest portion of the year and are currently very fluid. Accordingly, we did not feel comfortable specifying what the impact on our bottom line results would be.

**Morris Goldfarb***Chairman & Chief Executive Officer, G-III Apparel Group Ltd.*

A

[ph] Mario (00:45:29), you'll have to realize that we have pricing power within our brands, which I tried to describe earlier. We believe that we're not immune, but I think we're in good shape to manage price increases with consumer acceptance on a big percentage of our business and the pieces that are essential. We're the most competitive resource in our universe of competition.

So, I would say, as we raise our prices, our competition has to raise their prices. So, good chance that the scale of our business grows as we are, in many cases, the opening price point for our department stores. So, they would trade down and come to us and give up a resource that couldn't manage pricing the way we can.

**Mauricio Serna***Analyst, UBS Securities LLC*

Q

Understood.

**Neal Nackman***Chief Financial Officer, G-III Apparel Group Ltd.*

A

And finally, just to be clear, on the spring and into next year, again, when we see those – our cost impact upfront, we're able to engineer that into our pricing and work back to the margins that we need to run the business.

**Mauricio Serna***Analyst, UBS Securities LLC*

Q

Got it. And just a quick follow-up. You maintained the revenue guide, despite facing like this situation with Sonia Rykiel postponing the launch. So, is it fair to assume that you expect – you think like relative to where you were in March, you – maybe like the outperformance that you've seen in the owned brands is allowing you to maintain the guide despite this headwind? Or what is driving – what is allowing you to maintain the sales guide despite not postponing this launch?

**Neal Nackman***Chief Financial Officer, G-III Apparel Group Ltd.*

A

No, that's right. We see other strength in the rest of the portfolio.

**Mauricio Serna***Analyst, UBS Securities LLC*

Q

Okay. Thank you so much. Thanks. Good luck.

**Morris Goldfarb***Chairman & Chief Executive Officer, G-III Apparel Group Ltd.*

A

Thank you. Thanks for your questions, [ph] Mario (00:47:34).

**Operator:** Thank you. And our last question comes from Paul Kearney with Barclays. Your line is open.

**Paul Kearney***Analyst, Barclays Capital, Inc.*

Q

Hey, good morning. Thanks for taking my question. So, just on the inventory, can you maybe speak to how you are anticipating ending 2Q inventory levels, just given you said that you were kind of shut out production when China tariffs were 145% and then you're restarting it. So, where do you think inventory lands for you in 2Q and then through the year? And then I have a follow-up.

**Neal Nackman***Chief Financial Officer, G-III Apparel Group Ltd.*

A

Yeah, look, inventory has been lean. We've been chasing. We've been cleaner in terms of what sits in our warehouses. But we continue to think that our inventory levels will move more consistent with the sales growth that we've got in the future periods.

**Morris Goldfarb***Chairman & Chief Executive Officer, G-III Apparel Group Ltd.*

A

Paul, this is not a normal period of time. There's still uncertainty as to where tariffs wind up. And there's a date that politically has been given out that tariffs will be reviewed, and we are accelerating everything that we can, so there may be a shift that is not a normal shift. We're moving out as much product not to get stuck in a windfall potential, not that I believe it occurs, but we want to be out of the way if there's another storm.

**Paul Kearney***Analyst, Barclays Capital, Inc.*

Q

Okay.

**Morris Goldfarb***Chairman & Chief Executive Officer, G-III Apparel Group Ltd.*

A

So, you can't – it's difficult...

**Paul Kearney***Analyst, Barclays Capital, Inc.*

Q

My second one...

**Morris Goldfarb***Chairman & Chief Executive Officer, G-III Apparel Group Ltd.*

A

I'm sorry.

**Paul Kearney***Analyst, Barclays Capital, Inc.*

Q

Go ahead. No, go ahead.

**Morris Goldfarb***Chairman & Chief Executive Officer, G-III Apparel Group Ltd.*

A

Now, it's difficult at this time to really run a stable business with all the factors that surround us, but it's all good as far as inventory levels. I'd say, if we wind up with a deluge of inventory that we're able to receive in Q2 that looks like it's a negative, it's an absolute positive. So, we've gotten out of the way and we own the inventory.

**Paul Kearney***Analyst, Barclays Capital, Inc.*

Q

Okay. My second one is and fully understand you're speaking to the pricing power of some of your owned brands. But when we look in the industry and we hear others speaking to consumer uncertainty, driving traffic headwinds, we're starting to see inventory build throughout the industry. I guess, what are you expecting for promotions for the remainder of the year, and how will you navigate that? Thank you.

**Morris Goldfarb***Chairman & Chief Executive Officer, G-III Apparel Group Ltd.*

A

We're not feeling very much pressure on promotions. Our products, as I described, you delivered quality product, you delivered on time, you're positioned well, you manage – you care and manage your customers, in many cases, you win. And this isn't only for our brands. This includes our exiting brands. Tommy and Calvin, our sales are very good. They're performing incredibly well in the department stores that they occupy space. There's some pressure in how we're managing the business as we're exiting it. But the product is selling well. There's a high demand for it. And in many cases, I would tell you that our inventory levels right now are a little bit too low for the demand that – for the product that we're creating and selling through.

**Paul Kearney***Analyst, Barclays Capital, Inc.*

Q

Okay. Thank you.

**Morris Goldfarb***Chairman & Chief Executive Officer, G-III Apparel Group Ltd.*

Thank you, thank you. And thank you, all, for your interest in our company and your patience, tolerance, and support. And I wish you a great weekend.

**Operator:** Thank you for your participation. You may now disconnect. Everyone, have a great day.

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